

DECEMBER 12, 2025

# Economic Outlook

Delaware State Chamber of  
Commerce  
Wilmington, DE

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Anna Paulson

President and Chief Executive Officer  
Federal Reserve Bank of Philadelphia

The views expressed today are my own and not necessarily those of the Federal Reserve System or the Federal Open Market Committee (FOMC).

*Remarks as prepared for delivery.*

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Thank you, John.<sup>1</sup> And thank you, Mike.<sup>2</sup> I'm looking forward to taking your questions in a few minutes.

It is great to be in Wilmington, and I want to thank the Delaware Chamber for inviting me to speak today. This is my first time in Delaware since joining the Philly Fed back in July. I have heard a lot about how the Philly Fed has benefited from productive relationships with many of you over the years. I look forward to many years of continued partnership.

Before we jump into the Q&A, I'd like to take a few minutes to describe how I see the economy and what this means for monetary policy. With the end of the year quickly approaching, this is a good time to take stock, looking back at how the economy has evolved over the last year or so and also at what may lie ahead.

Before I begin, let me remind everyone that these are my own views and do not necessarily reflect those of my colleagues on the Federal Open Market Committee (FOMC) or in the Federal Reserve System.

**Looking Back to Look Forward**

The latest data — which are mostly for September — show that core personal consumption expenditures (PCE) inflation was 2.8 percent over the 12 months ending in September. The unemployment rate edged up to 4.4 percent in September, and it looks like growth for 2025 will come in at about 1.7 percent for the year. Looking back a year ago, to September of 2024, at that time the inflation rate was also 2.8 percent,

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<sup>1</sup> John Gooden, chief operating officer, M. Davis & Sons, <https://mdavisinc.com/executive-committee>.

<sup>2</sup> Michael Quaranta, president, Delaware State Chamber of Commerce, <https://www.dscc.com/ourteam.html>.

unemployment was 4.1 percent, and growth for 2024 ended up being a healthy 2.4 percent.

Relative to a year ago, inflation is the same, the unemployment rate is up some, and growth has slowed. Let's dig into a few of the details, starting with the labor market.

Over the last six months of 2024, the economy was creating about 170 thousand jobs a month. For the most recent three months it's been considerably slower, around 60 thousand jobs per month. If you only knew these figures, you might be surprised that the unemployment rate was only up three-tenths to 4.4 percent in September of this year.

But labor supply has been coming down at the same time that labor demand has been cooling, and this has kept the labor market roughly in balance and prevented the unemployment rate from going up more. An important part of this has been the changes in immigration policy, which have lowered the number of workers entering the labor force each month substantially. On net, though, demand for workers has fallen a little faster than supply, leaving the unemployment rate a little higher.

Other data also point to a less dynamic labor market. Hiring has been very concentrated in healthcare and social services, turnover is low and job finding rates are slowing. In addition, people report being more worried about losing their jobs, but actual layoffs appear to be low. The labor market is okay, but downside risks are elevated.

This year has also seen a step down in gross domestic product (GDP) growth. In 2024, aggregate real growth came in at 2.4 percent and, in 2025, it is shaping up to be around 1.7 percent. If we take out the effect of the government shutdown, it would probably be close to 2 percent. Some of this slowdown is a return to more typical growth patterns and some is likely the result of slower labor force growth along with new restrictions on trade.

This year (and 2024 for that matter) have also seen huge stock market gains driven by artificial intelligence (AI) hyperscalers (apparently, that's the new term!) and accumulating evidence that the economy is one where low-income households are struggling, pressured by high prices and worries about job security, while higher-income

households continue to spend freely, supported by the strong stock market. So, while headline growth is shaping up to be pretty decent this year, the base of support looks different — with a lot of concentration at the top.

So, we have seen solid, but slowing, growth and a less dynamic labor market. And inflation that was 2.8 percent in September of last year and was still 2.8 percent in September of this year. I think this quick walk through the past couple of years is important context for understanding the FOMC's decisions to cut rates by a total of 100 basis points in 2024 and by another 75 basis points this year. The goal is, as always, to deliver stable prices and maximum employment. With inflation too high and the labor market bending, but not breaking, that means balancing the risk that inflation stays too high against the risk that employment deteriorates as we manage the process of getting to our goals. By lowering rates 75 basis points over the last three meetings, we've taken out some insurance against further labor market deterioration.

Even though inflation was 2.8 percent this September and last September, inflation developments have played an important role in monetary policy. Bear with me for a minute as I am going to dig into some details. I want to highlight three components of inflation: inflation in goods, in housing, and in services (not including housing).

In September of 2024, housing inflation and services inflation were elevated but goods inflation had come down a lot. Indeed, over the 12 months ending in September of 2024, goods inflation was slightly negative. By lowering rates, when inflation was improving and the labor market was slowing, the FOMC was acknowledging the improved inflation picture and keeping labor market risks contained.

In 2025, labor market and inflation developments have both been important as well. In contrast to last year, goods inflation has gone up this year as tariffs find their way through to the prices of imported goods. But services inflation has come down a bit and housing inflation has come down quite a bit. Lower rates have helped to keep the risks to the labor market and inflation in balance.

On net, I am still a little more concerned about labor market weakness than about upside risks to inflation. That's partly because I see a decent chance that inflation will

come down as we go through next year. I attribute most of the increases in goods inflation in 2025 to tariffs and I expect the bulk of these effects to disappear by middle of next year. I also expect housing inflation to continue to improve next year. Data on new tenant rents and other market indicators give me confidence that this part of inflation will continue to head down. Of course, even if both of these things end up happening, inflation would still be elevated — likely in the neighborhood of 2.5 percent and above the FOMC's 2 percent goal. But with the funds rate currently at 3.5 to 3.75 percent, I continue to see monetary policy as somewhat restrictive. This level of rates, together with the cumulative effect of past restrictiveness, should help bring inflation back to 2 percent.

Looking ahead to the new year, I am very much looking forward to the resumption of the normal flow of official data. By the time the FOMC meets at the end of January, we will have a lot more information, which I hope will add clarity to the outlook for inflation and employment, as well as the accompanying risks. For example, we will have the equivalent of three employment reports when the FOMC next meets at the end of January. In addition, if I am wrong and there are still a lot of firms that are planning to increase prices due to tariffs, I would expect to find out early in the year, as firms often set new prices in January.

## **Conclusion**

I want to close by sharing a few thoughts on the importance of restoring price stability and delivering maximum employment. Shocks to the economy will always move us away from our goals, but the public's faith that we will do what it takes to get back to our goals is valuable across a range of economic circumstances.

One way to gauge this credibility, at least for price stability, is to look at expectations of future inflation derived from financial markets. These have been remarkably stable and consistent with 2 percent inflation — right now and over the past five-and-a-half years — a period that has seen headline inflation range from a low of half a percent to a high of over 7 percent.<sup>3</sup>

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<sup>3</sup> As measured by the total personal consumption expenditures price index on a 12-month basis.

Credibility means that when there is a recession, expectations for future inflation remain at 2 percent, which helps get us out of the recession. When inflation is high, credibility means that the FOMC has more room to balance our employment and inflation goals, and we don't have to raise rates as high and risk bad labor market outcomes to get things back on track. Credibility is important right now as we consider how to deal with the potential inflationary impact of tariffs. If I am wrong, and tariffs do end up producing sustained inflation, credibility means that the public is confident that we will recognize this and adjust policy accordingly. That credibility gives us room to take out some insurance against bad labor market outcomes without risking too much on the inflation front.

Credibility will also be incredibly valuable if we experience high growth over the next few years. If this happens, I'd say there's a decent chance that it will be because we are experiencing productivity gains driven by deregulation and AI. But generally, when growth is high, central bankers worry that the economy is running hot and that this could lead to high inflation. That doesn't have to be the case if growth is high due to higher productivity. But there's no way to be sure in real time. You may think productivity is high, you may hope productivity is high, but you aren't going to know for sure until after the fact. If we have credibility, then we won't feel pressure to reflexively raise rates just because GDP is growing quickly. We will be able to be patient.

There are important parallels here to one of the most successful episodes in the FOMC's history. And one of the reasons why Alan Greenspan is considered such a genius. Under Greenspan's leadership in the second half of the 1990s, the FOMC worried that high growth rates might lead to elevated inflation. But rather than raising rates, the FOMC let things play out, eventually lowering rates — taking a calculated bet that high growth was due to higher productivity and not a sign that the economy was overheating. Greenspan's FOMC had the credibility to make this bet without risking higher inflation because it had earlier taken decisive action to fight inflation. It's hard to argue with the outcome: 4.4 percent growth for 4 years, inflation that averaged 1.5 percent at a time when the funds rate fell from 5.8 percent to 5.1 percent.

Credibility helps us deliver better outcomes for the American people — in good times and in bad. Thank you so much. I look forward to continuing the conversation with Mike and to your questions.